

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Muskegon Area District Library	County Muskegon
Fiscal Year End December 31, 2006	Opinion Date September 20, 2007	Date Audit Report Submitted to State October 19, 2007	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

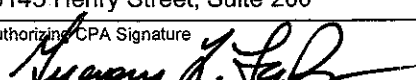
YES NO

Check each applicable box below (See instructions for further detail)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☒ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☐ ☒ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

<b>We have enclosed the following:</b>	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input type="checkbox"/>		
Other (Describe)	<input checked="" type="checkbox"/>	SAS 112 Letter	
Certified Public Accountant (Firm Name) Pridnia LaPres, PLLC		Telephone Number (231) 739-9441	
Street Address 3145 Henry Street, Suite 200		City Muskegon	State MI
Zip 49441			
Authorizing CPA Signature 		Printed Name Gregory L. LaPres	License Number 1101013632

# **Muskegon Area District Library**

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**Financial Statements and  
Required Supplemental Information**  
For the Year Ended December 31, 2006

# Muskegon Area District Library

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## **Independent Auditors' Report**

To the members of the  
Muskegon Area District Library Board

We have audited the financial statements of the governmental activities of the Muskegon Area District Library, as of and for the year ended December 31, 2006, as listed in the table of contents. These financial statements are the responsibility of the Muskegon Area District Library's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements listed in the table of contents present fairly, in all material respects, the financial position of the governmental activities of the Muskegon Area District Library at December 31, 2006, and the changes in financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis and budgetary comparison schedule (identified in the table of contents) are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

*Pridnia Lapres, PLLC*

September 20, 2007

Muskegon Area District Library  
Management's Discussion and Analysis  
December 31, 2006

The management of the Muskegon Area District Library presents a narrative overview of the financial condition and operations of the library for the year ended December 31, 2006 and for the three month period ended December 31, 2005. Please read this narrative in conjunction with our financial statements and note to financial statements.

Financial Statement Presentation

These financial statements have been prepared in accordance with Governmental Accounting Standards Board (GASB) statement number 34 and presented in the prescribed format.

The District Library's financial statements are comprised of: 1) Governmental Funds Balance Sheet/Statement of Net Assets and 2) Statement of Governmental Fund Revenues, Expenditures and Changes in Fund Balance/Statement of Activities. This report also contains required supplementary information regarding a budgetary comparison schedule of the General Fund.

The "statement of net assets" provides information about the library's assets and liabilities, with the difference between the two being reported as "net assets". Viewing this difference over a period of years can serve as one indicator of the library's ability to continue to operate.

The "statement of activities" provides information on why net assets changed in the period just ended. All changes in net assets are reported as soon as the event occurs, *regardless of the timing of the related cash flows*. Thus, revenue and expenditures are reported in this statement for some items that will result in cash flows in future fiscal periods. Examples of timing differences are uncollected taxes and earned but unused vacation leave.

The library is primarily supported by penal fines and contributions in 2006 from the County. In 2007, the primary support will be penal fines and property taxes. In 2008, the primary support will be property taxes that will be levied on an annual basis. Renewal of the levy occurs every 10 years. Expenditures are primarily for branch operations, administration, and book purchases.

In addition to the basic financial statements and accompanying notes, this report also provides certain required supplementary information concerning the library's budget and how it relates to the amounts actually spent.

The District Library as a Whole

The “Statement of Net Assets” provide the readers with information on the General Fund of the library under full accrual which includes capital assets and debt. With the economic resources presentation, readers can see if the library is improving or deteriorating financially. The library’s total assets equal \$2,391,046 with unrestricted being a deficit of \$(433,304). This deficit is primarily the result of a loan of \$300,000 from the County of Muskegon to carry the Library until February 2007 when property taxes of over \$1,000,000 were received.

District Library Statement of Net Assets		
<i>December 31,</i>	2006	2005
Categories		
Assets		
Cash	\$ 47,023	\$ 195,607
Taxes Receivable	2,144,229	-
Accounts Receivable	709	3,028
Capital Assets, net	199,085	244,533
Total Assets	\$2,391,046	\$ 443,168
Liabilities		
Due To Other Governmental Units	\$ 300,000	\$ 9,525
Deferred Revenue	2,325,265	-
Liabilities	\$2,625,265	\$ 9,525
Net Assets		
Investment in Capital Assets net of related debt	\$ 199,085	\$ 235,008
Unrestricted	(433,304)	198,635
Total Net Assets	\$ (234,219)	\$ 433,643

District Library  
Statement of Activities

	Year ended December 31, 2006	Three months ended December 31, 2005
<hr/>		
Revenues		
Contributions	\$ 65,816	\$ 381,003
Penal Fines	429,992	-
Grants	125,680	-
Reimbursements	158,506	33,478
Donated Assets	-	313,034
Other	61,965	9,574
<hr/>		
Total Revenues	841,959	737,089
Expenditures		
Leased employer costs	936,901	156,660
Depreciation	135,825	35,353
Other	437,095	111,433
<hr/>		
Total Expenditures	1,509,821	303,446
<hr/>		
Excess of Revenues over Expenditures	(667,862)	433,643
Net Assets Beginning December 31, 2005	433,643	-
<hr/>		
Net Assets Ending December 31, 2006	\$ (234,219)	\$ 433,643
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As this is the first full year of operation, trend data is not available for the statement of activities.

### Economic factors for next year's budget

The Library's budget for 2007 projects a balanced budget and an anticipated surplus at year's end. The majority of revenues will come from property taxes and penal fines. The remainder of funds will come from state aid grants to libraries, USF credits, book sale revenues, overdue book fines, lost and damaged book charges, photocopy machine income and memorial donations from individuals and groups.

It is anticipated that state aid grants to libraries will be reduced due to the State of Michigan budget problems. State Aid grants are a small part of MADL's budget and will have little impact on the overall economic strength of the Library. State aid grants are important to the Library Cooperatives and cuts in cooperative state aid could result in increased cost to MADL for cooperative services. Penal fines vary from year to year and can only be estimated on previous year's receipts.

Inflation will have an impact on the cost of supply and materials purchases. Wages are also affected by inflation as the library pays a cost of living formula. Increasing gas prices will have an effect on the overall costs of delivery services.

The above factors may result in budget adjustments but should not affect the balanced budget ending with a surplus.

### Contacting the District Library's Management

This financial report is intended to provide our citizens, taxpayers, patrons and other interest parties with a general view of the Library's financial operations and to show the Library's accountability for the revenues it receives. If you have questions or need further clarification about this report, please contact Stephen Dix, Library Director, at 231-737-6248 or email him at [mclsd@llcoop.org](mailto:mclsd@llcoop.org).



# Muskegon Area District Library

## Governmental Fund Balance Sheet/Statement of Net Deficit

	<u>Modified Accrual Basis</u>		<u>Full Accrual Basis</u>
<i>December 31, 2006</i>	General Fund	Adjustments	Statement of Net Assets
<b>Assets</b>			
Cash and cash equivalents	\$ 47,023	\$ -	\$ 47,023
Taxes receivable (Note 1)	2,144,229	-	2,144,229
Accounts receivable	709	-	709
Capital assets, net (Note 3)	-	199,085	199,085
<b>Total Assets</b>	<b>\$2,191,961</b>	<b>\$ 199,085</b>	<b>\$2,391,046</b>
<b>Liabilities</b>			
Due to other governmental unit (Note 5)	\$ 300,000	\$ -	\$ 300,000
Deferred revenue (Note 1)	2,325,265	-	2,325,265
Total liabilities	2,625,265	-	2,625,265
<b>Fund Deficit</b>			
Fund Deficit - Unreserved			
Unrestricted	(433,304)	433,304	-
<b>Total Liabilities and Fund Deficit</b>	<b>\$2,191,961</b>		
<b>Net Deficit</b>			
Invested in capital assets		\$ 199,085	\$ 199,085
Unrestricted		(433,304)	(433,304)
<b>Total Net Deficit</b>		<b>\$(234,219)</b>	<b>\$ (234,219)</b>

*The accompanying notes are an integral part of this statement.*

# Muskegon Area District Library

## Statement of Governmental Fund Revenue, Expenditures and Changes in Fund Balance/Statement of Activities

	Modified Accrual Basis		Full Accrual Basis
<i>Year ended December 31, 2006</i>	General Fund	Adjustments	Statement of Activities
<b>Revenues</b>			
State grants	\$ 125,680	\$ -	\$ 125,680
Interest and rentals	5,700	-	5,700
Contributions	65,816	-	65,816
Fines and forfeits	429,992	-	429,992
Reimbursements	158,506	-	158,506
Other revenue	56,265	-	56,265
<b>Total Revenue</b>	<b>841,959</b>	<b>-</b>	<b>841,959</b>
<b>Expenditures</b>			
Administrative expense	75,812	-	75,812
Books and magazines (Note 6)	60,538	(41,225)	19,313
Contractual services	75,367	-	75,367
Depreciation	-	135,825	135,825
Insurance	15,708	-	15,708
Interest	1,998	-	1,998
Leased employee costs	936,901	-	936,901
Maintenance	21,965	(8,394)	13,571
Miscellaneous	60,433	(42,924)	17,509
Postage	9,388	-	9,388
Professional fees	45,142	-	45,142
Occupancy	42,707	(7,359)	35,348
Supplies	61,265	-	61,265
Telephone	62,834	-	62,834
Travel	1,940	-	1,940
Utilities	1,900	-	1,900
<b>Total Expenditures</b>	<b>1,473,898</b>	<b>35,923</b>	<b>1,509,821</b>
<b>Net Change in Fund Balance</b>	<b>(631,939)</b>	<b>(35,923)</b>	<b>(667,862)</b>
<b>Fund balance/Net assets - Beginning of year</b>	<b>198,635</b>	<b>235,008</b>	<b>433,643</b>
<b>Fund deficit/Net deficit - End of year</b>	<b>\$ (433,304)</b>	<b>\$ 199,085</b>	<b>\$ (234,219)</b>

*The accompanying notes are an integral part of this statement.*

# Muskegon Area District Library

## Notes to Financial Statements

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### 1. Summary of Significant Accounting Policies

#### Reporting Entity

The Muskegon Area District Library (District Library) was established on October 1, 2005, pursuant to Act No. 24 of the Public Acts of 1989 by the participating municipalities of Muskegon County, Blue Lake, Casnovia, Cedar Creek, Dalton, Egelston, Fruitland, Fruitport Charter, Holton, Laketon, Montague, Moorland, Muskegon Charter, Ravenna, Sullivan and White River Townships, Village of Fruitport, and the Cities of Montague, Muskegon Heights, North Muskegon, Norton Shores and Roosevelt Park . The District Library provides library services to the general public.

The Library is funded primarily through property taxes, penal fines, grants, and donations. The voters of the districts approved a 0.75 mill tax for a ten year period, which began with a tax levy effective December 1, 2006. This millage provides for funding of Library operations and capital expenditures through December 31, 2016.

#### Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities ) report information on all of the activities of the Muskegon Area District Library.

The Statement of Activities demonstrates the degree to which the direct expenses of providing library services are offset by the revenues designated to fund those services. All of the revenues of the General Fund of the District Library are intended to pay for those direct expenses, except as designated by the Library Board.

# Muskegon Area District Library

## Notes to Financial Statements

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### **Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District Library considers revenues to be available if they are all collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

State-shared revenue and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period, when applicable. All other revenue items are considered to be available only when cash is received by the District Library.

The various funds are presented in these financial statements as follows:

*General Fund* - This fund is used to account for all financial transactions not accounted for in another fund, including the general operating expenditures of the District Library.

# Muskegon Area District Library

## Notes to Financial Statements

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### Capital Assets

Capital assets, which include property and equipment, are reported in the Statement of Net Assets column in the government-wide financial statements. Capital assets are defined by the District Library as assets with an initial individual cost of \$1,000 or more and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation.

Property and equipment is depreciated using the straight-line method over the following useful lives:

Collections	5 years
Equipment	3 - 10 years

### Property Taxes

Property taxes are levied on each December 1 on the taxable valuation of property as of the preceding December 31. Taxes are considered delinquent March 1 of the following year, at which time they are turned over to the County of Muskegon for collection. Taxes levied on December 1 are recorded as receivables and deferred revenue. Taxes are recognized as revenue in the calendar year following the levy.

The 2005 taxable value of the district totaled \$3,104,493,227, on which taxes levied consisted of 0.75 mills for operating purposes. This resulted in \$2,325,265 recognized as deferred revenue.

# Muskegon Area District Library

## Notes to Financial Statements

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### Deferred Revenue

Income is recognized as revenue as it is earned. Property taxes levied December 1 are for the following year's budget, as described previously. Accordingly, the December 1 tax levy is recorded as deferred revenue at December 31.

### Budgets and Budgetary Accounting

The District Library follows these procedures in establishing the budgetary data reflected in the financial statements:

- a. On or before December 1, the District Library submits to the general public a proposed operating budget for the fiscal year commencing the following January 1. The operating budget includes proposed operating and capital expenditures and the means of financing them.
- b. A public hearing is conducted to obtain taxpayer comments.
- c. Prior to January 1, the budget is legally enacted through passage of a resolution.
- d. The District Library director is authorized to transfer budgeted amounts within funds within any activities, except for certain activities which require Library Board authorization.
- e. The budget for the general fund is adopted on a basis consistent with generally accepted accounting principles.
- f. Appropriations for all funds lapse at the end of the fiscal year.
- g. Budgeted amounts are reported as originally adopted, or as amended by the District Library Board. Budget appropriations were amended during 2006.
- h. The budget has been adopted on a total fund basis.

# Muskegon Area District Library

## Notes to Financial Statements

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### **Fund Deficit**

As of December 31, 2006, the Library had an undesignated fund deficit of \$433,304. The deficit will be eliminated through future operations.

### **Excess of Expenditures Over Appropriations**

For the year ended December 31, 2006, expenditures exceeded appropriations by \$128,018. These over-expenditures were funded by a short-term borrowing by the Library from the County of Muskegon.

### **Encumbrances**

Encumbrance accounting under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is not employed by the District Library.

### **Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

### **Donations**

All donations are considered to be available for unrestricted use unless specifically restricted by the donor. All non-cash donations are recorded at their estimated fair market value as of the date of the contribution.

### **Cash Equivalents**

The District Library considers all short-term investments with an original maturity of three months or less to be cash equivalents.

# Muskegon Area District Library

## Notes to Financial Statements

- 2. Cash** The District Library's cash at December 31, 2006 is reported in the General Fund. At December 31, 2006 the carrying amount of the District Library's deposits were \$47,023 and are fully secured by the County of Muskegon's fiduciary responsibility.

- 3. Capital Assets** Capital assets activity of the District Library for the year ended December 31, 2006 was as follows:

	Balance January 1, 2006	Additions	Deletions	Balance December 31, 2006
<b>Governmental Activities</b>				
Capital assets being depreciated				
Collections	\$ 205,071	\$ 41,225	\$ -	<b>\$ 246,296</b>
Equipment	74,815	49,152	-	<b>123,967</b>
Subtotal	279,886	90,377	-	<b>370,263</b>
Less accumulated depreciation for:				
Collections	(25,071)	(99,365)	-	<b>(124,436)</b>
Equipment	(10,282)	(36,460)	-	<b>(46,742)</b>
Subtotal	(35,353)	(135,825)	-	<b>(171,178)</b>
<b>Governmental Activities</b>				
<b>Total Capital Assets -</b>				
<b>Net of Depreciation</b>	<b>\$ 244,533</b>	<b>\$ (45,448)</b>	<b>\$ -</b>	<b>\$ 199,085</b>



# Muskegon Area District Library

## Notes to Financial Statements

- 4. Long-term liabilities** Long-term liabilities consisted of three obligations to the County of Muskegon for various equipment purchases. The obligations were unsecured. The full faith and credit of the District Library was pledged for their repayment.

The activity for the year ended December 31, 2006 can be summarized as follows:

Governmental Activities	Interest Rate	Principal Matures	Beginning Balance	Additions (Reduction)	Ending Balance	Due Within One Year
Computer equipment	4.25%	May 2006	\$ 1,240	\$ (1,240)	\$ -	\$ -
Computer data network	4.25%	May 2006	3,306	(3,306)	-	-
Integrated library system	4.25%	September 2006	4,970	(4,970)	-	-
					<u>\$ -</u>	<u>\$ -</u>

All debt matured during 2006.

- 5. District Library Agreements** The District Library entered into an agreement with local participating municipalities effective October 1, 2005. Among other things, the Agreement provided for Muskegon County to pay the District Library an amount equal to \$300,000 no later than October 15, 2006. The District Library received this payment and is obligated to reimburse the County for the same amount without interest when revenues are received from the December 1, 2006 levy of the District Library millage.

The District Library entered into a non-cancelable lease agreement to lease a facility from an unaffiliated entity at August 1, 2006. The lease requires monthly payments of \$3,997, with annual increases during the lease term based upon increases in the Consumer Price Index of the Bureau of Labor Statistics, but not to exceed 3%. The lease expires July 2016. The lease also contains an option to purchase the existing building from the lessor at the District Library's option.

# Muskegon Area District Library

## Notes to Financial Statements

Minimum future rental payments under this non-cancelable operating lease for each of the next five years and thereafter and in the aggregate are approximately as follows:

*Year ended December 31,*

2007	\$ 48,500
2008	49,700
2009	50,900
2010	52,200
2011	53,500
2012 and thereafter	288,200
	<hr/>
	\$543,000

Rental expense under this lease agreement was \$19,985 for the year ended December 31, 2006.

The District Library also has an employee leasing agreement with the County of Muskegon which terminated on December 31, 2006. In accordance with the agreement, the District Library reimburses the County for all associated payroll costs for the County employees assigned to the Library. Effective January 1, 2007, those employees that were leased from the County of Muskegon became employees of the Muskegon District Library.

### **6. Capitalized Books**

The District Library generally capitalizes its purchases of Collection materials, with the exception of periodicals, in the Statement of Net Assets. The District Library expended \$60,538 (less \$41,225 capitalized) for books and magazines purchases for the period ended December 31, 2006.

# Muskegon Area District Library

## Notes to Financial Statements

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### **7. Endowment Fund**

An endowment fund has been established at the Community Foundation for Muskegon County for the District Library. This fund is accounted for and administered by the Community Foundation for Muskegon County. At December 31, 2006, this fund was valued at approximately \$82,000.

## **Required Supplemental Information**



# Muskegon Area District Library

## Budgetary Comparison Schedule - General Fund

<i>Year ended December 31, 2006</i>	Original Budget	Final Amended Budget	Actual	Variance with Final Amended Budget
<b>Revenues</b>				
State grants	\$ 142,000	\$ 125,681	\$ 125,680	\$ (1)
Interest and rentals	3,600	5,550	5,700	150
Contributions	390,307	395,857	65,816	(330,041)
Fines and forfeits	423,000	426,925	429,992	3,067
Reimbursements	180,900	162,125	158,506	(3,619)
Other revenue	31,215	57,780	56,265	(1,515)
<b>Total Revenues</b>	<b>1,171,022</b>	<b>1,173,918</b>	<b>841,959</b>	<b>(331,959)</b>
<b>Expenditures</b>				
Administrative expense	100,000	75,000	75,812	(812)
Books and magazines	60,600	81,975	60,538	21,437
Contractual services	79,000	79,500	75,367	4,133
Insurance	10,400	12,654	15,708	(3,054)
Interest	-	1,620	1,998	(378)
Lease employee costs	721,152	811,273	936,901	(125,628)
Maintenance	18,452	38,225	21,965	16,260
Miscellaneous	9,080	56,325	60,433	(4,108)
Postage	7,500	12,250	9,388	2,862
Professional fees	15,000	25,808	45,142	(19,334)
Occupancy	-	44,100	42,707	1,393
Supplies	50,600	40,315	61,265	(20,950)
Telephone	57,550	61,075	62,834	(1,759)
Travel	1,000	2,225	1,940	285
Utilities	-	3,535	1,900	1,635
<b>Total Expenditures</b>	<b>1,130,334</b>	<b>1,345,880</b>	<b>1,473,898</b>	<b>(128,018)</b>
<b>Net Change in Fund Balance</b>	<b>40,688</b>	<b>(171,962)</b>	<b>(631,939)</b>	<b>(459,977)</b>
<b>Fund balances - Beginning of year</b>	<b>198,635</b>	<b>198,635</b>	<b>198,635</b>	<b>-</b>
<b>Fund balances (deficit) - End of year</b>	<b>\$ 239,323</b>	<b>\$ 26,673</b>	<b>\$ (433,304)</b>	<b>\$ (459,977)</b>

# **Muskegon Area District Library**



**SAS 112 Letter**  
Year Ended December 31, 2006

To the Members of the  
Muskegon Area District Library

September 20, 2007

In planning and performing our audit of the financial statements of the Muskegon Area District Library (District Library) as of and for the year ended December 31, 2006, in accordance with auditing standards generally accepted in the United States of America, we considered the District Library's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District Library's internal control. Accordingly, we do not express an opinion on the effectiveness of the District Library's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies and other deficiencies that we consider to be material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We believe that the following deficiencies constitute significant deficiencies.

The American Institute of Certified Public Accountants (AICPA) has issued Statement on Auditing Standards No. 99, *Consideration of Fraud in a Financial Statement Audit*. This statement requires the independent auditor to perform additional procedures that are intended to reduce the risk that material fraud may go undetected. You should be aware that, while these additional procedures may reduce the risk of material undetected fraud, they do not eliminate risk. It is management's responsibility to design and implement programs and controls to prevent, deter and detect fraud. During our audit of the District Library, we noted that there was no documented fraud prevention policy in place.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We believe that the following deficiencies constitute material weaknesses.

The District Library does not have adequate procedures in place to monitor and when appropriate, amend the District Library's budget. As a result, budget-to-actual comparisons are difficult to evaluate. In addition, capital asset and depreciation schedules are not being maintained by the District Library. The District Library accounts are also not being maintained in conformity with the Uniform Chart of Accounts for Counties and Local Units of Government in Michigan under the authority of PA2 of 1968.

This communication is intended solely for the information and use of management, the Board of Trustees of Muskegon Area District Library, and the State of Michigan Department of Treasury, and is not intended to be, and should not be, used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Rudnia Latta, PLLC". The signature is written in a cursive, flowing style.